

Questions and Answers About the CDFI Program 2001 Core & Intermediary Components

The following provides some Questions and Answers on the 2001 Core & Intermediary Components of the CDFI Program. If you have additional questions about the application, you may contact the CDFI Fund by telephone at (202) 622-8662, by e-mail at cdfihelp@cdfi.treas.gov, or by facsimile to (202) 622-7754. Additional information on the Fund and its programs, including copies of the CDFI Program regulations, funding applications and other materials, are available on the Fund's web site: www.treas.gov/cdfi.

1. What are the eligibility requirements that an organization must meet in order to apply for funding and receive an award disbursement under the Core or Intermediary Components?

In order to receive any disbursement of a Core or Intermediary financial or technical assistance award from the CDFI Fund, an organization must be certified as a CDFI by the Fund. In order to be certified, an organization must be a legal entity at the time of application, and must meet each of the following certification criteria (described in detail in the Certification Materials section of the application):

- ✓ **Primary mission.** An applicant, individually and collectively with its affiliates, must have a primary mission of promoting community development. An affiliate means any company or entity that controls, is controlled by, or is under common control with another company;
- ✓ **Target market.** An applicant must principally serve an Investment Area(s) or Targeted Population(s). Generally, at least 60% of the applicant's activities must serve its Target Market(s);
- ✓ **Financing entity.** An applicant must be an Insured Depository Institution, Insured Credit Union, or Depository Institution Holding Company, or must otherwise demonstrate that its predominant business activity is the provision of financing. The Fund reviews an applicant's assets and staff resources devoted to the applicant's lending and/or investing activities, its Development Services, and its other financing-related activities. In a case where no one activity constitutes a majority of an applicant's business activities, financing must be the largest component of its activities;
- ✓ **Development Services.** An applicant, directly or through an affiliate, must provide Development Services in conjunction with its financing. Common examples of Development Services are homebuyer counseling, small business technical assistance, and financial literacy education;
- ✓ **Accountability.** An applicant must maintain accountability to residents of its Investment Area(s) and/or members of its Targeted Population(s) through

representation on its governing board or otherwise. An applicant must have a mechanism in place to receive, on a regular basis, and integrate into its operations input from its Target Market;

- ✓ Non-government entity. An applicant must not be an agency or instrumentality of the government of the United States, or any State or political subdivision thereof. An entity that is created by, or that receives substantial assistance from, one or more government entities may be a CDFI provided that it is not controlled by such entities and maintains independent decision-making power over its activities. The Fund will look closely at an applicant's board, funding sources, organizing documents and any other areas over which the government might control the applicant. The Fund does not consider a tribal government to be an agency or instrumentality of the government; and
- ✓ Provisions applicable to Depository Institution Holding Companies and Insured Depository Institutions. An applicant that is a Depository Institution Holding Company, Insured Depository Institution or an Affiliate or Subsidiary of either, may be a CDFI only if it and its Affiliates and Subsidiaries collectively satisfy the Primary Mission, Target Market, Financing Entity, Development Services, Accountability and Non-government Entity criteria.

An applicant that does not meet each of the certification criteria at the time that the Fund reviews its application materials may still be eligible for funding, provided that its certification materials demonstrate that it is likely to satisfy all of the certification criteria by December 31, 2002 (Core Component) or December 31, 2001 (Intermediary Component). In such a case, the Fund will not disburse any portion of a Core or Intermediary financial or technical assistance award until the organization is certified.

2. If an organization is currently certified as a CDFI, is it required to complete the Certification Materials section of the funding application?

Not necessarily. Organizations that have been certified as a CDFI only have to complete the Certification Materials section of the application if the certification has expired or is scheduled to expire within nine months after the due date for the funding application (September 21, 2001 for the Core Component and September 19, 2001 for the Intermediary Component). This requirement is intended to ensure that organizations selected to receive awards will not have CDFI certifications that expire prior to the time that the Fund seeks to disburse the award to the applicant.

3. What type of assistance can applicants request under the Core and Intermediary Components?

Applicants for funding under the Core and Intermediary Components may request awards from the Fund in the form of grants, loans, equity investments (including, in the case of Insured Credit Unions, secondary capital accounts), shares, or deposits. However, such applicants must obtain matching funds from sources other than the Federal government on the basis of not less than one dollar for each dollar of financial assistance provided by the Fund (matching funds are not required for technical assistance awards). Matching

funds must be at least comparable in form and value to the financial assistance provided by the Fund (for example, a request for grant funds must be matched by a non-Federal grant to the applicant). See the Notices of Funds Availability (NOFA) published in the Federal Register on August 14, 2000 for the applicable matching funds period dates.

4. How much funding is available under the 2001 Core and Intermediary Components?

The Notice of Funds Availability (NOFA) published in the Federal Register on August 14, 2000 specifies that the Fund intends to award up to \$50 million in appropriated funds for the Core Component and up to \$5 million in appropriated funds under the Intermediary Component. The Fund reserves the right to award in excess of these amounts provided that the funds are available and the Fund deems it appropriate.

5. What changes have been made to the application since last year?

Following the application changes in 2000, the Fund has made some additional changes to the 2001 Core and Intermediary Applications that are intended to make the application process more transparent and simpler. Throughout the application, we have provided clarifying language to address questions and comments that have been raised by CDFI practitioners. The application highlights items that do not have to be completed by Insured Credit Unions and Insured Depository Institutions, or where those entities may substitute alternative information. More information is provided on how estimated activity levels may be used. As discussed below, the application also clarifies information required by applicants in the Intermediary Component. Finally, as described further below, the new application has simplified requirements for applicants designating an Other Targeted Population as its Target Market.

6. What changes have been made in designating an Other Targeted Population as a Target Market?

The revised application and NOFAs make it easier for applicants to designate such an Other Targeted Population. Previously, the Fund required all applicants designating an Other Targeted Population to submit studies, surveys, or other information demonstrating that: (a) the identified Other Targeted Population has unmet loan or investment needs; and (b) that the applicant's clients who are members of the defined population have such unmet needs.

The new standard eliminates the requirement in part (b) that an applicant provide information on its clients' specific unmet credit or investment needs, and only requires an applicant to provide a brief analytical narrative with information demonstrating that members of the Other Targeted Population within the applicant's service area have unmet loan, equity investment, or financial services needs. The application clarifies that the Fund will review a wide range of information to determine if an applicant meets the new standard. This information may include, for example, data from the Fund's On-Line Help Desk about mortgage and small business lending within the applicant's service area

by traditional financial institutions, surveys of the applicant's clients indicating high levels of loan denials by traditional financial institutions, studies conducted by third parties indicating inadequate access to credit or financial services among members of the Other Targeted Population within the applicant's service area, information showing a lack of bank branches or other regulated financial institution offices within the applicant's service area, Home Mortgage Disclosure Act data, Bureau of the Census data, data regarding the proliferation of high-cost lenders within the applicant's service area, or other proxies that demonstrate that the Other Targeted Population lacks adequate access to loans, investments, or financial services in the applicant's service area.

In addition, the application and NOFAs reduce the information required by applicants serving certain Other Targeted Populations through a national service area. Specifically, the Fund has determined that credible evidence exists on a national level demonstrating that Blacks or African Americans, Native Americans or American Indians, and Hispanics or Latinos lack adequate access to loans, equity investments, or financial services. To the extent that an applicant's service area is national and it is serving such population(s), it is not required to provide the above-referenced analytical narrative describing its population's unmet loan, equity investment, or financial service needs. However, the Fund believes that it is important to ensure that organizations serving these Other Targeted Populations in regional or local services areas provide information from those service areas that is consistent with the national data.

Similarly, the application and NOFAs reduce the information required by applicants serving Alaska Natives residing in Alaska and Native Hawaiians or Other Pacific Islanders residing in Hawaii or other Pacific Islands. To the extent that an applicant is serving such populations, it is not required to provide the analytical narrative describing these populations' unmet loan, equity investment, or financial service needs.

7. Can I submit my application electronically?

The Fund cannot currently accept applications electronically. However, all of the charts in the application may be downloaded from the Fund's website in a spreadsheet format, so applicants may more easily enter numerical data. These charts can be printed and included in your application.

8. What is the On-Line Help Desk, and what do I do if I don't have access to the Internet?

The upgraded On-Line Help Desk is used to generate customized Investment Area maps and worksheets, provides information on median area income in order to determine if a population is Low-Income, and provides access to housing and small business lending data and other data that can tell you more about your market. The On-Line Help Desk can be used both in designating the Target Market you serve and in developing the market analysis portion of your Comprehensive Business Plan. Applicants that do not have access to the Internet are encouraged to access the Help Desk using the computer facilities of a local public library or other site. If no such facilities are available, applicants may contact the Help Desk via phone at (312) 580-2591 to request assistance.

9. What is the purpose of the Industry Data section of the application?

This information will be entered into the Fund's database to provide a source of data about the CDFI field. This information will not be used in the review of an organization's eligibility for CDFI certification, or in the competitive review of an organization's application for a Core or Intermediary award. The Fund is in a position to serve as a source of data on the CDFI industry and its growth. We believe that this data will be very useful not just in the Fund's reporting to Congress but also in helping CDFIs understand key measures and trends.

10. In preparing the Activity Level Chart in the Community Development Impact section of the Comprehensive Business Plan, will an applicant automatically be penalized if the activity level projections don't increase over time?

No. The application asks the applicant to provide an explanation of why the projections don't increase. There may be valid reasons for flat or even decreasing projections (e.g., increased income targeting that requires more staff time per loan; change in focus from one product line to another).

11. Why do applicants have to use the Fund's Comprehensive Business Plan format even if applicants already have our own business plan in a different format?

The standard format will help the Fund's reviewers evaluate each application because the evaluation criteria used by the reviewers correspond to the required format. This system ensures that each application is reviewed in a consistent manner while providing applicants the flexibility to present their own circumstances. The standard format also helps applicants provide all of the necessary information.

12. In the financial ratios, what kinds of numbers is the Fund looking for? In other words, what's "good" and what's "bad?"

The Fund does not have any pre-determined levels that are considered "good" or "bad". The Fund evaluates these individually based on the individual circumstances, type of financing organization, and markets of each applicant. To facilitate this evaluation, the application includes a section of narrative that enables applicants to provide an explanation of their financial trends and performance and to clarify levels of performance that may appear questionable to a reviewer.

13. What is the Fund looking for in the financial projections?

The Fund is looking for projections that are consistent with other information provided in the business plan. For example, the projected capital requirements and loans receivable should be consistent with the projections in the Activity Level Chart. The annual salaries

should reflect any new staff needed to carry out the five-year business plan. The new debt and equity resources coming in should be consistent with the financial sustainability strategy narrative and the matching funds sections. If the projections show any financial difficulties, such as negative net revenue, the applicant should explain this in the narrative.

14. What is the difference between the types of organization that should apply for assistance under the Core Component and the Intermediary Component?

The Core Component involves assistance to CDFIs that serve their target markets through loans, investments, and other activities. The Intermediary Component involves assistance to CDFIs that provide financing primarily to other CDFIs and/or to support the formation of CDFIs. Applicants to the Intermediary Component will find that the application clarifies the information required on their activities. In particular, the application requests information on Intermediary applicants' activities supporting small and emerging CDFIs and CDFIs that have not received funding from the CDFI Fund.

15. What are some examples of impact indicators for CDFI Intermediaries?

Page 44 of the application gives a few examples. These include: Dollar amount of capital under management by the Intermediary's borrowers/investees; and dollar amount of loans/Equity Investments outstanding held in portfolios of all of the Intermediary's borrowers/investees.